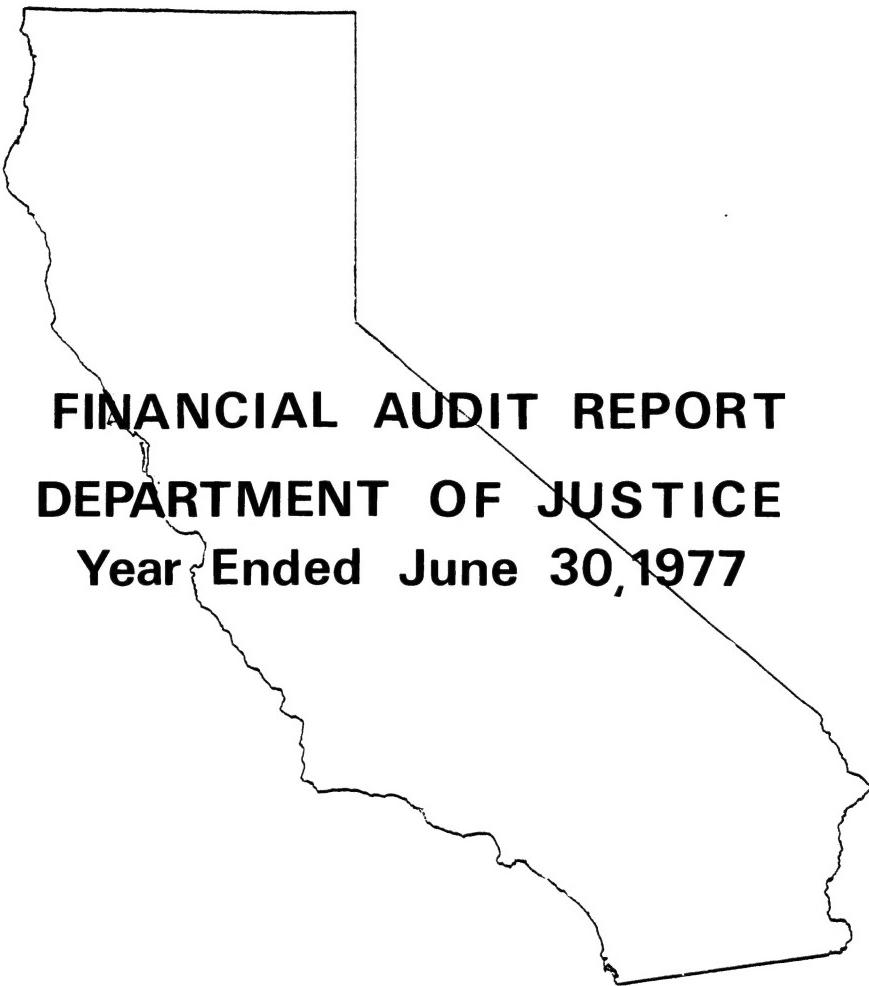




Joint Legislative Audit Committee
Office of the Auditor General

**REPORT TO THE
CALIFORNIA LEGISLATURE**

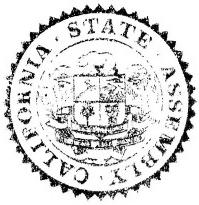


Office of the Auditor General
1955 - 1978

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

713

FINANCIAL AUDIT REPORT
DEPARTMENT OF JUSTICE
YEAR ENDED JUNE 30, 1977



Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL



California Legislature

CHAIRMAN
MIKE CULLEN
LONG BEACH

MIKE CULLEN
CHAIRMAN

VICE CHAIRMAN
ALBERT RODDA
SACRAMENTO

ASSEMBLYMEN
DANIEL BOATWRIGHT
CONCORD
EUGENE A. CHAPPIE
ROSEVILLE
LEROY GREENE
SACRAMENTO

SENATORS
PAUL CARPENTER
CYPRESS
GEORGE DEUKMEJIAN
LONG BEACH
NATE HOLDEN
LOS ANGELES

June 7, 1978

Letter Report 713

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's financial audit of the Department of Justice, Year Ended June 30, 1977.

The auditors are Curt Davis, CPA; Dennis Sesler, CPA; Dennis Reinholtzen, CPA; Cynthia Dirks; Walter Reno; and Patricia Nishi.

Cordially,

MIKE CULLEN
Chairman

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDITOR'S OPINION	2
GENERAL FUND STATEMENTS	
Statement of Financial Condition June 30, 1977 (Exhibit A)	4
Statement of Changes in Operating Clearing Year Ended June 30, 1977 (Exhibit B)	5
Statement of Budgeted and Actual Expenditures Year Ended June 30, 1977 (Exhibit C)	6
Statement of Revenues Year Ended June 30, 1977 (Exhibit D)	7
Statement of General Fixed Assets June 30, 1977 (Exhibit E)	8
LITIGATION DEPOSIT FUND STATEMENTS	
Statement of Financial Condition June 30, 1977 (Exhibit F)	9
Statement of Changes in Fund Balances Year Ended June 30, 1977 (Exhibit G)	10
SPECIAL DEPOSIT FUND	
Statement of Financial Condition June 30, 1977 (Exhibit H)	11
Statement of Changes in Fund Balance Year Ended June 30, 1977 (Exhibit I)	12
NOTES TO THE FINANCIAL STATEMENTS	13
COMMENTS AND RECOMMENDATIONS	20
WRITTEN RESPONSE TO THE AUDITOR GENERAL'S REPORT	29

INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee, we have conducted a fiscal audit of the Department of Justice. This audit was conducted under authority vested in the Auditor General by the Government Code.

The constitutional office of the Attorney General, chief law officer of the State, heads the Department of Justice. It is responsible for ensuring uniform interpretation and enforcement of the laws and representing the State in civil and criminal proceedings. The Attorney General represents the people of the State of California in all matters before the Appellate and Supreme Courts of the State and of the United States. He is also the legal representative of all beneficiaries of property dedicated to charitable purposes.

The objectives of the Department of Justice are as follows: to provide skillful, efficient legal and investigative services in assuring that all state laws are adequately and uniformly enforced, in assisting district attorneys in the administration of justice and in serving as legal counsel for state officers, boards and commissions; to eliminate fraudulent, unfair and illegal activities from the public sector and to enforce compliance with legal requirements; to provide identification, criminalistics, informational, investigative, statistical and communication services to agencies administering criminal justice; and to suppress traffic in narcotics and dangerous drugs.

AUDITOR'S OPINION

The Joint Legislative Audit Committee
of the California Legislature:

We have examined the statements of financial condition of the Department of Justice for the General Fund, Litigation Deposit Fund and Special Deposit Fund as of June 30, 1977, and the related statements of general fixed assets, changes in operating clearing, budgeted and actual expenditures, revenues and changes in fund balance as set forth in the table of contents in this report, for the year then ended. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed more fully in Note 6 to the financial statements the Advances to Attorney General's Special Accounts of \$587,697 were not subject to certain auditing tests and procedures which we deemed necessary to comply with generally accepted auditing standards.

Because of the inadequacies of supporting records, we were unable to obtain sufficient evidence to form an opinion regarding the statement of general fixed assets amounting to \$7,607,923 at June 30, 1977. Accordingly, we do not express an opinion on that statement.

In our opinion, the financial statements described above, except as stated in the preceding paragraphs, present fairly the financial condition of the Department of Justice as of June 30, 1977 and the results of operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying statements of financial condition of the Department of Justice for the General Fund, Litigation Deposit Fund, and Special Deposit Fund as of June 30, 1976 and the related statements of general fixed assets, changes in operating clearing, budgeted and actual expenditures, revenues and changes in fund balances for the year then ended, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.


John H. Williams, CPA

Auditor General

March 31, 1978

Staff: Curt Davis, CPA
Dennis Sesler, CPA
Dennis C. Reinholtzen, CPA
Cynthia M. Dirks
Walter Reno
Patricia J. Nishi

EXHIBIT A

DEPARTMENT OF JUSTICE
GENERAL FUND
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	<u>June 30, 1977</u>	<u>June 30, 1976</u>
<u>Assets</u>		
Cash	\$ 817,638	\$ 303,902
Accounts Receivable (Note 6)	5,174,155	5,304,857
Advances to Attorney General's Special Accounts (Note 5)	587,697	360,309
Prepayment to Service Revolving Fund	29,182	19,246
Expense Advances to Employees	21,209	54,349
Inventory of Surveyed Equipment	<u>11,770</u>	<u>5,750</u>
Total	<u>\$6,641,651</u>	<u>\$6,048,413</u>

Liabilities, Encumbrances Outstanding, Reserves
and Operating Clearing

Liabilities:

Accounts Payable (Note 3)	\$2,153,610	\$3,109,592
Other Liabilities (Note 7)	1,100,000	21,763
Encumbrances Outstanding (Note 4)	989,764	-0-

Reserves:

Accountability for Attorney General's Special Accounts (Note 5)	587,697	360,309
Deferred Accounts Receivable (Note 7)	1,290,208	1,210,757
Uncleared Collections	88,805	176,156
Operating Clearing, per Exhibit B (Note 2)	<u>431,567</u>	<u>1,169,836</u>
Total	<u>\$6,641,651</u>	<u>\$6,048,413</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT B

DEPARTMENT OF JUSTICE
GENERAL FUND
STATEMENT OF CHANGES IN OPERATING CLEARING (NOTE 2)
YEAR ENDED JUNE 30, 1977

(With Unaudited Amount for Year Ended June 30, 1976)

Operating Clearing, June 30, 1976 \$ 1,169,836

Additions:

Revenues (Exhibit D)	\$ 4,314,894
Refunds to Reverted Appropriations	212,241
Prior Year Income Adjustments	(721)
Net Disbursements per State Controller	<u>56,909,458</u>
Total Additions	<u>\$61,435,872</u>

Deductions:

Net Appropriation Expenditures (Exhibit C)	\$59,566,469
Prior Year Appropriation Adjustments	<u>2,607,672</u>
Total Deductions	<u>\$62,174,141</u>
Operating Clearing, June 30, 1977 (Exhibit A)	<u>\$ 431,567</u>

The accompanying notes are an integral part of these financial statements.

EXHIBIT C

DEPARTMENT OF JUSTICE
 GENERAL FUND
 STATEMENT OF BUDGETED AND ACTUAL EXPENDITURES
YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for Year Ended June 30, 1976)

	<u>Budget as Adjusted</u>	<u>Actual</u>	<u>(Over) Under Budget</u>	<u>Actual Prior Year</u>
Personal Services	<u>\$57,793,310</u>	<u>\$55,734,830</u>	<u>\$2,058,480</u>	<u>\$49,508,561</u>
Operating Expenses and Equipment:				
General	\$ 3,085,025	\$ 2,935,030	\$ 149,995	2,355,816
Printing	402,557	314,320	88,237	167,009
Communications	1,561,471	1,395,070	166,401	1,251,395
Travel-In-State	1,891,709	1,835,511	56,198	1,410,427
Travel-Out-Of-State	248,879	101,264	147,615	102,760
Facilities Operations	3,964,978	3,712,686	252,292	3,545,515
Contractual and Consultative Services	1,691,993	1,522,005	169,988	1,078,556
Data Processing Services	4,341,440	4,302,551	38,889	4,038,206
Pro Rata Charges	118,650	118,650	-0-	116,389
Tort Liability Claims	385,533	363,283	22,250	276,776
Cost of Suit	695,870	638,609	57,261	609,502
Grant Expenses	769,683	-0-	769,683	1,962,747
Equipment	<u>1,274,198</u>	<u>1,202,904</u>	<u>71,294</u>	<u>952,117</u>
Total Operating Expenses and Equipment	<u>\$20,431,986</u>	<u>\$18,441,883</u>	<u>\$1,990,103</u>	<u>\$17,867,215</u>
Total Expenditures	\$78,225,296	\$74,176,713	\$4,048,583	67,375,776
Reimbursements	<u>17,545,358</u>	<u>14,858,097</u>	<u>2,687,261</u>	<u>16,445,200</u>
Net Support Expenditures	\$60,679,938	\$59,318,616	\$1,361,322	\$50,930,576
Tort Settlements	225,000	225,000	-0-	1,690,906
Appropriated Revenue				539,035
Child Support Program	<u>54,000</u>	<u>22,853</u>	<u>31,147</u>	<u>-0-</u>
Net Appropriation Expenditures	<u>\$60,958,938</u>	<u>\$59,566,469</u>	<u>\$1,392,469</u>	<u>\$53,160,517</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF JUSTICE
GENERAL FUND
STATEMENT OF REVENUES
YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for Year Ended June 30, 1976)

	<u>1976-77</u>	<u>1975-76</u>
Regulatory Licenses	\$ 968	\$ 731
Civil Penalties	125,561	139,523
Narcotic Fines	1,759,948	1,159,763
Fingerprint Identification Fees	2,330,866	1,312,623
Sale of Documents	-0-	70
Miscellaneous Services to the Public	63	115
Net Proceeds of Anti-Trust Actions (Note 8)	65,000	4,307,590
Campaign Contributions Civil Action Judgments	9,000	-0-
Miscellaneous Revenue	23,488	4,996
Health Care Service Plan Registration Fees (Note 9)	<u>-0-</u>	<u>393,512</u>
Total Revenues	<u>\$4,314,894</u>	<u>\$7,318,923</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF JUSTICE
GENERAL FUND
STATEMENT OF GENERAL FIXED ASSETS
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	<u>June 30, 1977</u>	<u>June 30, 1976</u>
General Fixed Assets:		
Equipment	\$6,743,206	\$5,871,904
Advances to Architecture Revolving Fund	<u>864,717</u>	<u>632,500</u>
Total General Fixed Assets	<u>\$7,607,923</u>	<u>\$6,504,404</u>
 Reserves for General Fixed Assets:		
Investment in Fixed Assets	\$6,743,206	\$5,871,904
Advances to Architecture Revolving Fund	<u>864,717</u>	<u>632,500</u>
Total Reserves for General Fixed Assets	<u>\$7,607,923</u>	<u>\$6,504,404</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF JUSTICE
LITIGATION DEPOSIT FUND
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	<u>June 30, 1977</u>	<u>June 30, 1976</u>
<u>Assets</u>		
Cash	\$ 899	\$ 442
Deposits in Surplus Money Investment Fund	1,182,900	1,225,900
Due from Surplus Money Investment Fund	<u>33,787</u>	<u>36,375</u>
Total	<u>\$1,217,586</u>	<u>\$1,262,717</u>
 <u>Fund Balance</u>		
Litigation Deposit Fund	<u>\$1,217,586</u>	<u>\$1,262,717</u>
Total	<u>\$1,217,586</u>	<u>\$1,262,717</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF JUSTICE
SPECIAL DEPOSIT FUND
STATEMENT OF FINANCIAL CONDITION
JUNE 30, 1977

(With Unaudited Amounts at June 30, 1976)

	<u>June 30, 1977</u>	<u>June 30, 1976</u>
<u>Assets</u>		
Cash	<u>\$162,293</u>	<u>\$111,030</u>
Total Assets	<u>\$162,293</u>	<u>\$111,030</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts Payable	\$ 49,988	\$ 3,878
Fund Balance: (Exhibit I)		
Charitable Trust Survey	\$10,596	\$10,596
Film Royalties	20,683	72,778
Grants	60,091	-0-
Initiative Fees	8,000	14,600
Unclaimed Checks and Deposits	7,461	1,545
Student Training on Prevention	4,203	4,948
Juvenile Justice Conference	733	1,251
Consumer Protection	451	451
Settlements Pending	<u>87</u>	<u>\$112,305</u>
	<u>983</u>	<u>\$107,152</u>
Total Liabilities and Fund Balance	<u>\$162,293</u>	<u>\$111,030</u>

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF JUSTICE
SPECIAL DEPOSIT FUND
STATEMENT OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1977

(With Unaudited Amounts for Year Ended June 30, 1976)

	<u>Balance</u> <u>June 30, 1976</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1977</u>
<u>Accounts</u>				
Charitable Trust Survey	\$ 10,596	\$ -0-	\$ -0-	\$ 10,596
Film Royalties	72,778	41,413	93,508	20,683
Grants	-0-	2,307,161	2,247,070	60,091
Initiative Fees	14,600	2,600	9,200	8,000
Unclaimed Checks and Deposits	1,545	6,268	352	7,461
Student Training on Prevention	4,948	1,140	1,885	4,203
Juvenile Justice Conference	1,251	-0-	518	733
Consumer Protection	451	-0-	-0-	451
Settlements Pending	<u>983</u>	<u>8,609</u>	<u>9,505</u>	<u>87</u>
Total Fund Balance	<u>\$107,152</u>	<u>\$2,367,191</u>	<u>\$2,362,038</u>	<u>\$112,305</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 1977

1. Summary of Significant Accounting Policies

The preceding financial statements reflect the financial position and results of operations of the Department of Justice. The accounts are divided among three separate funds. The different funds included in the financial statements and their purposes are:

General Fund: The General Fund is used to account for all revenues and activities financed therefrom which are not required by law to be accounted by any other funds. The Department of Justice accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller.

Litigation Deposit Fund: The Litigation Deposit Fund was created to account for all money received as litigation deposits where the State of California is a party to litigation and no other statutes provide for handling and investing such money. The Department of Justice maintains the fund's accounting records. Payments are made from the fund as the courts direct.

Special Deposit Fund: The Special Deposit Fund is a depository of moneys collected by the State for specific purposes in instances where no fund has been created to be credited for the moneys received.

The accounting policies of the Department of Justice conform to generally accepted accounting principles applicable to governmental units contained in the State Administrative Manual.

Income: During the year income accounts are maintained on a cash basis. At June 30, accrued receivables estimated to be collected during the following fiscal year are credited to the year in which they are earned. Accrued receivables for which collection is indefinite are fully reserved until collected.

Expenditures: During the year appropriation expenditures are, in general, recorded at the time claims for payment are filed with the State Controller. An exception to this procedure occurs when transfers of money to the Architecture Revolving Fund for capital outlay are recorded as expended at the time of transfer even though the actual expenditures from that fund may not occur until a later date. At June 30, all valid encumbrances against appropriations are accrued as expenditures.

Liabilities:

- A. Public Employees' Retirement System: All employees are members of the Public Employees' Retirement System (PERS). According to the Annual Report of the State Controller for the fiscal year ended June 30, 1977, not all of the actuarial obligation under PERS is currently funded. The portion of the unfunded obligation attributable to the Department of Justice is unknown.

B. Vacation Pay: Accrued liability for vacation is not recorded on the statements. Related expenditures are recorded when paid. Liability for unused vacation at June 30, 1977 is not readily determinable under the statewide accounting system.

General Fixed Assets: Equipment purchases are recorded as expenditures in the year of purchase or encumbrance and are capitalized at acquisition cost in the Statement of General Fixed Assets.

Advances to the Architecture Revolving Fund for capital improvement projects are recorded as expenditures in the year the transfer is made even though the actual expenditure from that fund may not occur until a later date. Advances in excess of expenditures, if any, are returned upon the project's completion.

2. Operating Clearing

This account is the connecting link between the Department of Justice's portion of the General Fund and the central accounts of the General Fund maintained by the State Controller. The account balance at June 30, 1977 represents a clearing account between the Department of Justice and the State Controller.

3. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30, 1977. Accordingly, they also include liabilities whose disbursement requests were submitted to the State Controller by June 30, 1977 ("Claims Filed") which he had not paid as of that date.

4. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30, 1977. The separation between accounts payable and encumbrances outstanding was not available for June 30, 1976.

5. Accountability for Advances to Attorney General's Special Accounts

The advances were established under the authority of Sections 12570 through 12574 of the Government Code to account for expenditures of confidential and undercover funds. Claims filed with the State Controller for expenditure reimbursement from the advances are specifically exempted by Section 12572 from preaudit by the State Controller. The Attorney General is required to file vouchers supporting the claims with the State Controller within one year after the claim was paid. The State Controller is prohibited from divulging any information on the vouchers, except upon order of a court of record in cases where the information is relevant and material evidence or upon order of the Legislature.

6. Accounts Receivable and Reserve
for Deferred Accounts Receivable

General Fund Accounts Receivable at June 30, 1977 contained a significant amount of receivables for which collectibility is uncertain. Most of this amount is for legal services and is due from other state agencies. Failure to collect these receivables is caused by disputes over the actual amount owed.

Negotiations are currently underway among the several state agencies, the Department of Finance and the Board of Control to resolve the issues.

As of June 30, 1977 recorded accounts receivable for these services were \$4.46 million. In addition, unrecorded receivables of an undeterminate amount for legal services rendered to some agencies prior to fiscal year 1975-76 may also be due. The details to support the unrecorded amounts have not yet been finalized; however, the Department of Finance, acting as intermediary, estimates that the unrecorded amount ranges between \$540,000 and \$1,063,000.

7. Other Liabilities

This amount shows the liability potentially existing as the result of improper costs charged to the Federal Government under 42 grants and one contract administered by the Department of Justice.

Improper costs were discovered by the Department of Finance in an audit of 42 grants for the period July 1, 1974 to December 31, 1976 and one contract audited by the Department of Transportation for the three-year period ended June 30, 1975.

The potential liability amount was determined from preliminary information supplied by the two audit groups. The entire amount of \$1.1 million was charged to the 1974-75 fiscal year appropriation because prior years of the audit period had previously reverted. If part of the potential audit adjustments are for years prior to fiscal year 1974-75, the Department will have to seek a deficiency appropriation.

The final audit report for the 42 grants issued April 17, 1978 recommended cost adjustments of \$348,368.58. These adjustments primarily centered around the Department's application of provisional overhead rates to grant operations.

An interim audit report on the contract administered by the Department of Justice issued on May 8, 1978 discloses that the Department's accounting system did not accumulate reasonable, allocable and allowable costs for this contract. No audit exception amounts were disclosed. According to the audit report, the Department of Justice has agreed to review the reimbursement claim and eliminate unallowable costs upon receipt of the audit report.

8. Net Proceeds of Anti-Trust Actions

Decline in net proceeds of anti-trust actions from \$4.3 million in fiscal year 1975-76 to \$65,000 in fiscal year 1976-77 resulted from one anti-trust case settled during fiscal year 1976-77 for a relatively small amount compared with two large case settlements during 1975-76.

9. Health Care Service Plan Registration Fees

For fiscal year 1976-77 the administration for health care service plan registration fees was transferred to the Department of Corporations.

COMMENTS AND RECOMMENDATIONS

Procedural deficiencies observed during our examination are discussed below.

ACCOUNTABILITY FOR BILLABLE LEGAL
SERVICE ACTIVITIES IS INADEQUATE

The Department of Justice, under the direction of the Attorney General, provides legal and law enforcement services to state and local agencies. Reimbursements are billed for legal services provided to state agencies which are supported by special funds.

For several years the Department did not bill certain special funds for legal services because the Board of Control had not certified those funds as chargeable in accordance with Section 11044 of the Government Code, which states:

The State Board of Control shall determine and may at any time redetermine which funds, other than the General Fund, and which functions or activities of the Department of Water Resources supported by the General Fund, shall be charged with the costs of all legal services rendered by the Attorney General or his deputies or assistants to the function supported by any such fund. Such costs shall be fixed and determined by the Attorney General and shall be a charge against any fund so designated by the board. Reimbursements for such charges shall be credited to and in augmentation of the appropriation for the support of the Attorney General's Office from which the cost of said services was or will be paid.

The Department's accounting system did not identify the time spent and the costs of legal services to those funds.

In April 1976, the State Board of Control authorized certain additional special funds to be charged for legal services. In accordance with this authorization, the Department of Finance directed the Department of Justice to bill these special funds for legal services provided in prior years. Due to a disagreement over the billed amount, several agencies are reluctant to pay. The Board of Control, Department of Finance, Department of Justice and the several agencies involved are negotiating to resolve the issue.

The Department of Finance requires the Department of Justice to bill the previously unbilled multi-fund agencies according to their percentage distribution of General Fund and special fund support. For example, an agency with 85 percent of its support from the General Fund would be billed for 15 percent of legal services rendered.

For currently billed work, Department of Justice attorneys and client agency personnel together identify the proportion of work that is billable prior to its commencement. Thus the billable amount of legal services performed is determined jointly.

This system causes two problems. First, the reimbursable workload is difficult to estimate because the percentage mix of General Fund and special fund support for client agencies changes frequently. Second, there is a difference in the accountability for the time spent on the special fund and the General Fund legal services.

Recommendation

We recommend that the Legislature consider amending Government Code Section 11044 to provide consistency in the method of accounting and budgeting for the legal services provided by the Department of Justice.

CASH ACCOUNTING PROCEDURES
ARE INADEQUATE

The Department's accountability for cash receipts and cash disbursements needs improvement. Bank reconciliations are not prepared timely; cash collections are not deposited timely; cash receipts are not always documented; duties of employees handling cash receipt and disbursement activities are not adequately separated; warrants are issued out of numerical sequence; supporting documentation for warrant issuance is not always properly authorized and reviewed; and cash trust receipts are not deposited in a special deposit fund in the State Treasury. Detailed comments and recommendations follows:

Bank Reconciliations Are
Not Prepared Timely

Section 7921 of the State Administrative Manual (SAM) requires agencies to reconcile their bank and centralized State Treasury System accounts at the end of each month. The Department of Justice is currently not doing this. Reconciliations are sometimes delayed for periods exceeding three months. As a result, accounting records are not up-to-date and errors may go undetected for protracted periods.

Recommendation

We recommend that bank reconciliation be prepared at the end of each month as required by Section 7921 of the State Administrative Manual.

Cash Collections Are
Not Deposited Timely

Section 8030.1 of SAM requires collections received in the form of cash, checks, money orders or warrants to be deposited on the day of receipt or as soon thereafter as practical if they exceed \$5,000. Additionally, agencies are required to make deposits whenever collections accumulate to \$5,000. Currently, the Department of Justice does not always do this. Procedures require district offices to forward collections to the Sacramento headquarters for processing and deposit. These collections often exceed \$5,000, and sending them to Sacramento for processing delays deposit time by several days.

Recommendation

We recommend that district offices deposit daily collections in approved depositories.

Cash Receipts Are
Not Always Documented

The Department does not maintain a cash receipt register. In addition, some incoming cash receipts lack control because the Department does not prepare a listing of remitters and amounts. As a result, control over cash receiving functions is weak.

Recommendation

We recommend that the Department maintain a cash receipts register and initiate procedures that will provide for a listing of incoming receipts.

Duties of Employees Handling Cash
Receipt and Disbursement Activities
Are Not Adequately Separated

We noted several weaknesses in segregation of duties among employees. Revolving fund duties assigned to one employee include preparation of revolving fund warrants, reconciliation of monthly revolving fund balances, posting of revolving fund transactions and access to blank warrant stock. In addition, the duties of reviewing supporting documentation prior to signing revolving fund warrants are assigned to another employee who has access to blank warrant stock. To strengthen internal control procedures, Section 8080 of the State Administrative Manual prescribes that these duties should be segregated among a number of employees whenever possible.

Recommendation

We recommend that the Department of Justice consider reassignment of revolving fund duties to better conform with Section 8080 of the State Administrative Manual.

Warrants Are Issued
Out of Numerical Sequence

District offices currently receive their blank warrant stock from the Sacramento headquarters. District offices are not given separate identifiable warrant numbers. As a result, warrants are issued out of sequence causing difficulties in accountability of warrants and bank reconciliation procedures.

Recommendation

We recommend that the Department consider assigning identifiable markings on warrants issued to district offices.

Supporting Documentation for
Warrant Issuance Is Not Always
Properly Authorized and Reviewed

The Department of Justice has procedures requiring that prior authorization be received before a revolving fund warrant may be issued. In addition, authorizing signatures that are obtained are not reviewed for propriety. To strengthen internal control over revolving fund disbursements, prior authorizations should be obtained and reviewed.

Recommendation

We recommend that the Department of Justice enforce procedures requiring authorizations prior to issuance of a revolving fund warrant and initiate a review of those authorizations for propriety.

Cash Trust Receipts Are Not
Deposited in a Special Fund
in the State Treasury

Monies received for special purpose trusts are not deposited in the Special Deposit Fund in the State Treasury as required by Section 19440 of the State Administrative Manual.

Recommendation

We recommend that the Department deposit all special purpose trust monies in a Special Deposit Fund in the State Treasury.

ATTORNEYS' FAILURE TO SUBMIT
TIME RECORDS PUNCTUALLY
RESULTS IN BILLING DELAYS

The Department of Justice provides legal and investigative services to other state agencies. Services provided to agencies outside the General Fund are billed based upon an attorney's hourly billing rate. To expedite collection of amounts owed, attorneys must submit weekly time records to the Sacramento fiscal office. Many attorneys do not adhere to this departmental policy as evidenced by the 40 percent of the time sheets submitted at least two weeks late. This tardiness in submitting time sheets may result in delayed billings.

Recommendation

We recommend that the Department enforce the requirement for weekly submission of time reports.

ACCOUNTING CONTROLS OVER
FINGERPRINT IDENTIFICATION
FEE REVENUE ARE INADEQUATE

Fingerprint fees accounted for 54 percent of the Department's recorded revenue of \$4.3 million during fiscal year 1976-77. During our review, we noted several weaknesses in procedures used to account for and process fees received for these services. Fingerprint cards which initiate services to be rendered and transmittal forms used to initiate billings and cash collections lack accountability. These two key documents are not numerically cross-referenced or sequentially numbered to facilitate accountability and control over cash receipts and billings. As a result, controls do not exist to assure that all services have been billed and collections made.

Recommendation

We recommend that the Department initiate procedures to ensure accurate accountability and control over fingerprint services. These procedures should include a numbering system for individual clients to assure that all services have been billed and collected.

PURCHASE PROCEDURES
ARE INADEQUATE

During our review we noted inadequate documentation and authorization for some purchases.

Recommendation

We recommend the Department follow procedures as outlined in Section 8422.1 of the State Administrative Manual regarding adequate purchase documentation and authorization procedures.

TRAVEL ADVANCES EXCEED
EMPLOYEE NEEDS

Permanent travel advances issued to employees are not periodically reviewed for reasonableness. Consequently, travel advances exceed many employees' needs. Section 8116 of the State Administrative Manual requires an employee's supervisor to confirm the continuing need of amounts advanced.

Recommendation

We recommend the Department periodically review permanent travel advances for reasonableness.

EQUIPMENT ACCOUNTABILITY
IS INADEQUATE

Sufficient documentation is not available to determine the reasonableness of the value shown for equipment. Although a physical inventory of equipment was taken during fiscal year 1976-77, department records do not identify the current location of all equipment items. The Department not only fails to record transfers to different locations within the Department but also fails to record loans of equipment to other agencies. For example, at a facility located in Sacramento, 270 items valued at \$1,385,000 were tested. Of these, 63 items valued at \$276,000 could not be located, amounting to 23 percent of the items or 20 percent of the total value of equipment tested at the facility. As a specific example from the 63 missing items in the sample, 22 intoxilyzers assigned to Investigative Services Branch with an average value of \$3,060 each were unaccounted for. We were told that these items were loaned to the California Highway Patrol and other agencies within the State.

Recommendation

We recommend that the Department take a physical inventory of its equipment, reconcile the physical count with the perpetual records, adjust the records to agree with the physical count, update records currently for additions, deletions and transfers and record the physical location of all equipment.

EVELLE J. YOUNGER
ATTORNEY GENERAL
CHARLES A. BARRETT
CHIEF DEPUTY ATTORNEY GENERAL

STATE OF CALIFORNIA



ROBERT BURTON
CHIEF ASSISTANT ATTORNEY GENERAL
DIVISION OF ADMINISTRATION
SANFORD N. GRUSKIN
CHIEF ASSISTANT ATTORNEY GENERAL
DIVISION OF SPECIAL OPERATIONS
N. EUGENE HILL
CHIEF ASSISTANT ATTORNEY GENERAL
DIVISION OF CIVIL LAW
JACK R. WINKLER
CHIEF ASSISTANT ATTORNEY GENERAL
DIVISION OF CRIMINAL LAW

OFFICE OF THE ATTORNEY GENERAL

Department of Justice

555 CAPITOL MALL, SUITE 350
SACRAMENTO 95814
(916) 445-9555

May 31, 1978

John H. Williams, Auditor General
Office of the Auditor General
925 L Street - Suite 750
Sacramento, CA 95814

Dear Mr. Williams:

Financial Audit 1976/77 Fiscal Year - Audit Response

We are in receipt of the draft report of the recently completed financial audit of the Department of Justice for the year ended June 30, 1977. The report has been reviewed, and we are in agreement with your Comments and Recommendations. A number of the recommendations have been implemented, and we are now in the process of taking the necessary action to develop procedures to implement the remaining recommendations.

The audit team was most courteous and helpful, and it was a pleasure working with them. If we can be of further assistance, please contact me at 445-7075, or R. W. Stoecker at 445-3321.

Sincerely,

Charles A. Barrett
CHARLES A. BARRETT
Chief Deputy Attorney General

CAB;RWS;hk

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps